The OeNB at 200: continuity and change in central banking

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Conference on the occasion of the 200th anniversary of the Oesterreichische Nationalbank (OeNB): "Central banking in times of change"

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Ladies and gentlemen, it is a great pleasure and privilege for the BIS to co-organise this conference celebrating the 200th anniversary of the Oesterreichische Nationalbank. We congratulate our host on being one of the oldest central banks in the world. It is both amazing and humbling to see how the Austrian central bank has been able to navigate through some extremely changing circumstances – including times of war and peace, of wealth and poverty, of inflation and deflation, as well as currency reforms.

At a mere 86 years of age, the BIS is much younger. But our two institutions have worked closely ever since the BIS was established in 1930. Today, we continue to cooperate on many of the same issues of monetary and financial stability as in the early 1930s – which was also a challenging time.

The theme of our conference is precisely that of continuity and change. To set the scene, let me highlight two aspects of continuity and two aspects of change that have shaped our thinking about central banking over time.

Aspects of continuity

First, on continuity. Throughout their history, **central banks have been involved with government finances**. Early central banks were often called upon not only to stabilise debased currencies in the aftermath of wars, but also to help the government finance its debt.[1] This involved actively managing government debt – in particular, making it tradable.

For today's central banks, debt management is much less common a mandate than it used to be. Achieving price stability is the typical focus. Nonetheless, in the aftermath of the financial crisis, with the shift to unconventional monetary easing to reflate the economy, some central banks find themselves having to buy and hold a lot of government debt. In effect, they are influencing the amount and composition of government bonds left available in the market.

The debt management flavour inherent in such balance sheet policies can blur the line between monetary and fiscal measures. Such policies thus carry high stakes for central banks' autonomy. Moreover, as governments, markets and the public at large have increased their dependence on – and their expectations about – what central banks can do, the stakes are getting higher. I hope the discussion on central bank mandates in the next session will address some of these very pertinent issues, including the importance of central banks' autonomy.

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[1] See C Jobst and H Kernbauer, *The quest for stable money: central banking in Austria, 1816–2016*, Vienna, Campus, 2016.

Throughout their history, **central banks have also been involved with the banking sector**. The early central banks held the deposits of other banks, and served as their bankers. In due course, central banks' large gold (and, later, foreign exchange) reserves, and their networks of correspondent banks helped them become the lender of last resort in times of crisis.[2] Central banks have thus always had to consider financial stability issues in their quest for monetary stability.

During the gold standard era, the convertibility anchor helped deliver a good measure of price stability over longer horizons, but it was not enough to prevent waves of financial instability in the wake of credit booms, often accompanied by sharp asset price increases.[3]

Fast-forward to the post-Bretton Woods period: under fiat monetary regimes – but with a focus on price stability – central banks did achieve a measure of macroeconomic stability during the so-called Great Moderation. But as we subsequently learned, financial booms and busts remain very much untamed. This raises the question: **Where are we in the process of integrating central banks' monetary and financial stability mandates?** Again, I hope the discussions will shed some light.

Aspects of change

What about the changes? One important aspect is the **greater economic and financial integration** of modern economies. To be sure, globalisation is not a new phenomenon. What is different today is the scale of integration. On the real side, the growth of global value chains has transformed international trade and production. Domestic production costs have come to depend much more on price movements abroad, through imported inputs and implicit competition. The question is, then, **how far does domestic inflation reflect global factors**, over which monetary policy has little control?

On the financial side, globalisation has increased the influence that monetary policy settings for key global funding currencies – notably the dollar and the euro – have on the rest of the world. Given such policy spillovers, the room for independent monetary policy in smaller economies has probably narrowed, and policy trade-offs have become tougher. **How could central banks in smaller economies manage the effects of spillovers? And what could central banks in the key currency areas do for their part?** These questions on policy independence will feature in the second session this afternoon.

A second aspect of change I want to highlight concerns **technological progress and other longer-term supply shocks**. Structural trends such as the spread of digital technology, and increased price transparency and competition via the internet and e-commerce, may have been factors behind the recent persistently low inflation. Central banks might therefore need a longer than usual horizon to bring inflation back to target. **How could central banks take account of long-term structural influences on inflation?** This will be one of the issues for the session on inflation targets tomorrow morning.

Closing

In closing, let me thank you all for taking the time to join us here today. Many thanks in particular to our speakers, discussants and session chairs. I wish everyone a productive time, with insightful discussions both on and off the podium. And thank you again, Governor Nowotny and colleagues of the OeNB, for the cooperation and hospitality.

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2 M Bordo, "A brief history of central banks", Federal Reserve Bank of Cleveland, December 2007.

3 C Borio, "Monetary policy and financial stability: what role in prevention and recovery?", *BIS Working Papers*, no 440, January 2014.